

## Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 ISO-00 IO-10 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

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TO SECSTATE WASHDC 5184

INFO AMEMBASSY PRETORIA

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AMEMBASSY THE HAGUE

AMCONSUL CAPETOWN

USMISSION USUN

C O N F I D E N T I A L VIENNA 2518

E.O. 11652: GDS

TAGS: ECON, PGOV, PFOR, AU, SA

SUBJECT: GOA RETREAT ON POLITICAL INADVISABILITY OF

PARTICIPATION IN SOUTH AFRICAN ISCOR PROJECT:

PROSPECTS NOW FAVORABLE FOR SOME TYPE OF

ARRANGEMENT.

FOR EMBASSY CAPETOWN

REF: VIENNA 2194

SUMMARY: IN WAKE OF HEAVY BUFFETING FROM PRESS AND  
OPPOSITION PARTIES, CHANCELLOR KREISKY SHIFTED TACTICS  
ON HIS HANDLING OF ISSUE FROM HIS EARLIER QUESTIONING  
OF POLITICAL ADVISABILITY OF PROJECT TO REGISTERING MORE  
RECENTLY HIS CONCERN FOR ITS ECONOMIC FEASIBILITY.  
FONMIN BIELKA'S MALADROIT REMARKS ON ISSUE SERVED TO  
CAST HIM IN ROLE OF SCAPEGOAT FOR GOVERNMENT'S MISJUDGING  
OF INTENSITY OF AUSTRIAN FEELING OF OPPOSITION TO THIRD  
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WORLD AND UN HAVING MAJOR IMPACT IN DETERMINING AUSTRIA'S

FOREIGN ECONOMIC RELATIONS. PROSPECTS ARE NOW MORE FAVORABLE FOR CONCLUSION OF SOME ARRANGEMENT ON PROJECT, ALBEIT PROBABLY ON SMALLER SCALE AS FACE-SAVER FOR KREISKY GOVERNMENT. REPRESENTATIVES OF AUSTRIAN FIRM NOW IN SOUTH AFRICA FOR FURTHER DISCUSSIONS ON PROJECT. END SUMMARY.

1. CHANCELLOR KREISKY WAS SUBJECTED TO HEAVY BUFFETING FROM PRESS AND OPPOSITION PARTIES IN WAKE OF HIS INITIAL QUESTIONING OF POLITICAL ADVISABILITY OF ALLOWING VOEST-ALPINE MONTAN A.G. TO ENTER INTO 26 PERCENT PARTICIPATION IN SOUTH AFRICA ISCOR STEEL WORKS OVER OPPOSITION OF THIRD WORLD (REFTEL). OPPOSITION PARTIES MOUNTED MAJOR ATTACK IN PRESS AND PARLIAMENT ON KREISKY STANDPOINT, DECRYING IT AS DEPARTURE FROM BASIC TENET IN AUSTRIAN FOREIGN POLICY OF NEUTRALITY OF KEEPING FOREIGN ECONOMIC PROJECTS OUT OF POLITICAL ARENA AND DANGEROUS PRECEDENT FOR AUSTRIA'S FUTURE WELL BEING IF THIRD WORLD ABLE TO HAVE SUCH STRONG IMPACT ON AUSTRIAN FOREIGN POLICY DETERMINATION. MAJOR OPPOSITION PARTY BELABORED CHANCELLOR FOR "SOLICITING" VIEWS OF UN SECGEN WALDHEIM AND ALGERIAN FONMIN BOUTEFLLIKA ON SUBJECT SINCE THEIR RESPONSE COULD ONLY BE, AS EXPECTED, NEGATIVE ONE. OPPOSITION PARTIES WERE ALSO SHARPLY CRITICAL OF FONMIN FOR QUOTING "MORAL CONSIDERATIONS" AS POSSIBLE FACTOR AGAINST TRANSACTION WHEN AUSTRIA HAD IN FACT REPEATELY ABSTAINED ON UN VOTE ON ISSUE OF ECONOMIC SANCTIONS AGAINST SOUTH AFRICA AND WHEN SIMILAR MORAL CONSIDERATIONS HAVE NOT BEEN RAISED REGARDING AUSTRIAN ECONOMIC DEALINGS WITH COMMUNIST COUNTRIES.

2. IN WAKE OF INTENSE PUBLIC REACTION OVER ISSUE, KREISKY SIGNALLED SHIFT IN HIS TACTICS ALREADY PRIOR TO PARLIAMENTARY DEBATE ON ISSUE ON MARCH 19-20 WHEN HE SUGGESTED IN COMMENT TO PRESS AND ON TELEVISION THAT ECONOMIC FACTORS CONCERNING PROPOSED TRANSACTION WERE ALSO OF MAJOR IMPORTANCE. IN COURSE OF DEBATE ITSELF, KREISKY AVOIDED RESPONDING TO URGENT DEMANDS OF OPPOSITION TO MAKE CONVINCING CASE FOR POLITICAL TURNDOWN OF PROJECT AND STRESSED INSTEAD GOA'S DOUBTS ABOUT CONFIDENTIAL

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ECONOMIC FEASIBILITY OF UNDERTAKING. KREISKY ARGUED THAT PROPOSED PROJECT WAS OF SUCH MAGNITUDE AS TO REQUIRE CAREFUL SCRUTINY AND THAT SUCH REVIEW MIGHT ADVISE SCALING DOWN SIZE OF AUSTRIAN PART OF UNDERTAKING. IN OBVIOUS ATTEMPT TO GET OFF HOOK, HE SAID THAT OF COURSE IT IS UP TO FIRM INVOLVED TO MAKE DECISION. HE NOTED VOEST AND SUPERVISORY BOARD OF STATE HOLDING COMPANY WOULD FIRST HAVE TO EXAMINE PROJECT FROM ECONOMIC

VIEWPOINT AND IF ECONOMICALLY FEASIBLE, GOVERNMENT WOULD THEN PASS POLITICAL JUDGEMENT ON PROJECT.

3. AGAINST THIS BACKGROUND, SUPERVISORY BOARD OF STATE HOLDING COMPANY MET MARCH 20 AND AUTHORIZED VOEST TO GO AHEAD IN DISCUSSIONS ON PROJECT BUT ALSO TO EXAMINE POSSIBILITY OF REDUCING SIZE OR RISKS OF AUSTRIAN PARTICIPATION IN UNDERTAKING. ON BASIS SUCH INSTRUCTIONS, VOEST TEAM HEADED BY DIREKTOR GENERAL HIMSELF DEPARTED ON WEEKEND FOR SOUTH AFRICA WHERE FURTHER NEGOTIATIONS ON PROJECT ARE BEING HELD.

4. COMMENT: KREISKY CLEARLY MISJUDGED INTENSITY OF OUTCRY FROM BUSINESS COMMUNITY, CHAMBER OF COMMERCE AND OPPOSITION PARTIES OVER HIS SUGGESTION THAT POLITICAL CONSIDERATION MIGHT PROMPT GOVERNMENT TURNDOWN OF PROJECT. FONMIN BIELKA, ORIGINALLY CAST AS CLARIFIER OF CHANCELLOR'S POLITICAL RESERVATIONS, FOUND HIMSELF PLAYING OUT ROLE AT END OF PARLIAMENTARY DEBATE OF SCAPEGOAT FOR KREISKY'S MISHANDLING OF ISSUE. KREISKY'S RETREAT COVERED BY HIS WRAPPING HIMSELF IN PROTECTION-OF-NATIONAL-INTERESTS MANTLE IN CLAIMING THAT SIZE OF PROJECT REQUIRED GOA ASSURANCE THAT MORE EXACTING EXAMINATION OF ECONOMIC FACTORS WOULD BE UNDERTAKEN. CURRENT CONSENSUS IS THAT POLITICAL CONSIDERATIONS, AS NOW REGISTERED, WILL NOT PREVENT PROJECT FROM GOING FORWARD. AT SAME TIME HOWEVER, "AUSTRIAN SOLUTION" TO ISSUE LIKELY TO BE DEVELOPED, NAMELY THAT SOME REDUCTION IN AUSTRIAN PARTICIPATION WILL BE AFFECTED, THUS ALLOWING KREISKY GOVERNMENT TO CLAIM WISDOM OF FORESIGHT IN TIME OF ECONOMIC UNCERTAINTIES.MOWINCKEL

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